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ECON: Crisis Atmosphere Over Budget Outlook, Economy Fades
ELAB: Business, Labor Groups Agree on Salary Increases for Next Three Years
ELAB: Supplemental Unemployment Aid Extended for Another 6 Months
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ECON: INE Confirms Recession Continued in 2009 Q4
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Crisis Atmosphere Over Budget Outlook, Economy Fades

1.(U) Several factors during the week reduced the concern in financial markets that Spain could be forced to default or abandon the Euro. The presentations Finance Minister Salgado and key staff gave in London on February 8 explaining the GOS' budget plans seem to have been well received by investors and journalists. The apparent determination of European political leaders to support Greece in some way reduced concern that Greece's troubles would spread to Spain. The GOS has sent regional governments a deficit reduction proposal that is reported to envision cuts in discretionary transfers, such as those for investment, if regions do not cut other spending sufficiently. Moody's and Fitch reiterated their AAA ratings of Spanish debt, and the spread between Spanish and German debt, which had risen over 100 basis points at the end of the previous week, fell below 80 points. That said, the GOS continues to face a difficult task to bring down the budget deficit, and private forecasters as a group do not appear to agree with its deficit predictions for the next few years. Foreign press coverage continued to be watched closely, including a positive Financial Times piece about the seriousness of Spain's budget plans and three very critical articles in The Economist. Foreign financial journalists were uniformly critical of remarks by Infrastructure Minister Jose Blanco (who is President Zapatero's number two in the ruling party) that the previous week's financial market turmoil was the result of conspiracies against the Euro, Spain, and Zapatero. (Expansion, 2/11; ABC, 2/11; El Confidencial, 2/11; Council of Ministers, 2/12)

Business, Labor Groups Agree on Salary Increases for Next Three Years

2.(U) Agreements to loosely set salary increases for the next three years are being finalized between labor unions and the CEOE business confederation, and the news may help reduce any market fears of labor difficulties. According to the agreement, salaries will be able to increase up to 1% in 2010, between 1% and 2% in 2011 and 2012, and between 1.5% and 2.5% in 2013, depending on inflation. In the past five years, salaries have increased on average about 3.7% per year. Comment: While the salary increases take effect immediately, the agreement as a whole is not complete, as a special clause allowing individual businesses to lower salaries in times of crisis or extreme financial losses needs to be re-written. The CEOE and unions have already expressed agreement in negotiations on this clause however, and it is expected to be included in the final agreement shortly. (El Pais, 2/9; El Confidencial, 2/9)

Supplemental Unemployment Aid Extended for Another 6 Months

3.(U) The Council of Ministers approved the extension of supplemental unemployment aid for six more months to those whose other public benefits have run out. The current supplemental benefit, which expires on February 15, has provided 420 Euros a month to over 300,000 unemployed people who have lost benefits since last June. The government expects another 200,000 people to apply for the new benefit as their regular unemployment benefits expire. President Zapatero initially announced on February 9 the GOS' intention to extend the benefit. (All Media, 2/10; Council of Ministers, 2/12)

GOS Says 2010 Stimulus Plan Will Create 274,000 Jobs

4.(U) The government predicts that the 5-billion-Euro 2010 stimulus program will create 274,000 new jobs in 2010. It

says the 8-billion-Euro 2009 stimulus plan created more than 400,000 jobs. Almost 70% of the 2010 plan's funds will go to environmental and economic sustainability investments. (El Pais, 2/9)

INE Confirms Recession Continued in 2009 Q4

5.(U) The National Statistics Institute (INE) confirmed, as estimated by the Bank of Spain the previous week, that the economy continued to contract in the fourth quarter of 2009, the seventh consecutive quarterly decline. The decline was only 0.1% from the third-quarter figure, and production for 2009 as a whole was 3.6% below the 2008 level. Spain was the only G-20 or OECD member still in recession at the end of the year. (INE, 2/11; El Pais, 2/11)

Inflation at 1% in January

6.(U) The INE reported that January consumer prices were 1.0% over their level of January 2009. Underlying inflation, which removes the volatile energy and food components, was 0.1% over the same twelve-month period. (INE, 2/12)

Air Traffic Control Reforms Pass, Strike Possible During Busy Travel Period

7.(U) The Congress on February 11 overwhelmingly approved a series of air traffic control measures proposed by the Council of Ministers on February 5, including expedited training for new controllers, new standards, and competitive bidding for service providers. The government proposed the measures after talks broke off between the airports authority and the air traffic controllers' union, leading to the possibility of a disruption in service when the current agreement expires on March 31. This is in the middle of Holy Week, one of the year's busiest travel times. The government is seeking to cut air traffic controllers' salaries by 15% over the next 2 years. Minister of Infrastructure Jose Blanco

stated that salary cuts were long overdue and would lead to annual savings of 150 million Euros. He added that the controllers' demands would have Spain spending more three times as much in 2012 as France or Germany. Although public opinion generally sympathizes with workers, controllers' high wages and ability to retire at age 52 have cost them public support in a time of high unemployment and anticipated government spending cuts. (Presidency Statements, 2/5 and 2/11; Europa Press, 2/11; El Confidencial, 2/11)

Renault Plans Electric Car Production in Valladolid

8.(U) Renault plans to make Valladolid the first site in Spain to host an electric car production plant, which could ultimately become one of the largest electric car production plants in the world. Renault already has conventional automobile production operations in Valladolid and now is focusing on allocating more available land to construct the plant as soon as possible. The company plans to start production of the electric cars in the second half of 2011. (Europa Press, 2/10)

Telefonica Wants to Charge Content Providers, Search Engines for Internet Use

9.(U) Speaking before a Bilbao university audience February 5, Telefonica CEO Cesar Alierta warned that the current Internet business model is unsustainable for telecoms, which are going to have to start charging major users for use of the network. He stated that companies like Google, Microsoft, and Yahoo "use Telefonica's networks without paying anything, which is good luck for them but a misfortune for us...We put up the networks, we do the "peering," we make the systems, we do the customer care...we do the post-sales service, we do the installation service...we do it all. What I mean to say is, they have algorithms and content...But clearly it won't be able to continue this way." A rapid response came on Twitter and in various blogs: "It's as if (energy companies) Fenosa and Endesa charged household appliance manufacturers for use of the electric grid," wrote one commentator. The former state-owned monopoly Telefonica, Spain's largest company, remains the country's predominant telecom and Internet Service Provider (ISP) and has major investments and operations in the U.S., Latin America, and Asia. Consumers in Spain pay more for Internet access than their counterparts elsewhere in Europe, and the notion of ISPs seeking more compensation from other sources is likely

to be controversial. (El Pais, 2/7; El Mundo, 2/8; Cinco Dias, 2/12)
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